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BUSINESS OUTLOOK

for West Michigan



W.E. Upjohn Institute for Employment Research

Vol. XXVII, No. 2 June 2011

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BUSINESS OUTLOOK

for West Michigan

George A. Erickcek
Senior Regional Analyst

Benjamin C. Jones
Editor

Brad R. Watts
Regional Analyst

Lisa M. Phillips
Production Coordinator

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Muskegon Area First

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How to Define Regions

Regionalism is seen by many as offering a way to reduce the cost of delivering public services through the consolidation of administrative services. It is also promoted as an effective means of stretching economic development marketing dollars. The challenge often becomes how to define the region. Common attributes that are used include the following:

- **Sharing a common resource.** For example, Oceana, Muskegon, Ottawa, Allegan, Van Buren, and Berrien counties all are along the Lake Michigan shoreline and share a common concern for the lake's environmental health, while often competing for the same tourist dollars. Of course, the shared resource does not need to be natural; the U.S. 131 corridor connects St. Joseph, Kalamazoo, Allegan, and Kent counties. One could argue that both the lake and the highway corridor make up distinct regions.
- **Having a common industry cluster.** Allegan, Kent, Ottawa, and Muskegon house a well-known office furniture cluster and thus could be labeled a region. However, different clusters have different geographic boundaries, which can lead to difficulties in determining an overall regional boundary. For example, these same counties are part of an auto cluster that stretches across state lines.
- **Being part of a media market.** All west Michigan residents can watch Grand Rapids-based television news coverage. In addition, there are several business journals (including this one) that cover events in all of west Michigan.
- **Commuting patterns.** The government has relied on commuting patterns to define metropolitan statistical areas. This approach divides the larger region into smaller metro areas. For example,

Muskegon and Ottawa counties, which share similar industries and the Lake Michigan shoreline, are defined as two separate metro areas because of the lack of strong commuter flows between these two neighboring counties.

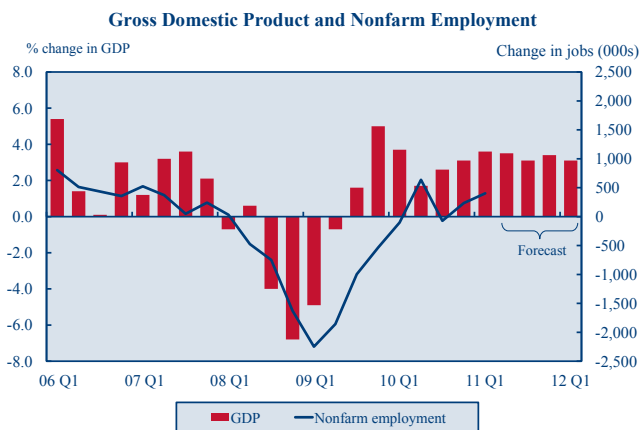
Unfortunately, as I have illustrated, each of these approaches results in a different regional definition. As an economist interested in labor issues, I am drawn to using commuting data. As shown in the table below, this type of data (here derived from 2007–2009 employment data) suggests that west Michigan is composed of several labor market regions:

- The single-county Holland–Grand Haven MSA and the four-county Grand Rapids–Wyoming MSA are clearly tied together, as 28.9 percent of Ottawa County residents work in the Grand Rapids MSA. Surprisingly, fewer than 5 percent of Ottawa County residents work in Muskegon County, while 15.6 percent of Muskegon's workers commute the opposite direction to work in Ottawa County.
- The Kalamazoo–Portage MSA and the Battle Creek MSA are only marginally attached, with 9.6 percent of Battle Creek residents commuting to Kalamazoo County but only 4.4 percent of Kalamazoo County residents going the opposite direction. In fact, more Kalamazoo residents commute to the Grand Rapids MSA than to Battle Creek.
- A large percentage of Allegan County residents commute to the Grand Rapids–Wyoming MSA, the Holland–Grand Haven MSA, and the Kalamazoo–Portage MSA.
- Finally, the Niles–Benton Harbor MSA is basically on its own.

Place of residence	MSA WHERE EMPLOYED							Total employed residents
	Allegan	Battle Creek	Grand Rapids–Wyoming	Holland–Grand Haven	Kalamazoo–Portage	Muskegon–Norton Shores	Niles–Benton Harbor	
Allegan County	14,770 (30.4%)	673 (1.4%)	10,523 (21.6%)	8,930 (18.4%)	6,288 (12.9%)	421 (0.9%)	628 (1.3%)	48,630 (100%)
Battle Creek	246 (0.5%)	26,555 (57.2%)	2,201 (4.7%)	312 (0.7%)	4,469 (9.6%)	160 (0.3%)	409 (0.9%)	46,402 (100%)
Grand Rapids–Wyoming	3,834 (1.2%)	2,904 (0.9%)	226,743 (73.3%)	16,040 (5.2%)	6,624 (2.1%)	4,661 (1.5%)	1,573 (0.5%)	309,189 (100%)
Holland–Grand Haven	7,672 (6.9%)	334 (0.3%)	31,964 (28.9%)	52,048 (47.1%)	1,602 (1.5%)	5,390 (4.9%)	348 (0.3%)	110,454 (100%)
Kalamazoo–Portage	3,963 (3.2%)	5,332 (4.4%)	6,586 (5.4%)	1,464 (1.2%)	82,022 (67.0%)	490 (0.4%)	3,906 (3.2%)	122,368 (100%)
Muskegon–Norton Shores	591 (0.9%)	265 (0.4%)	9,116 (13.9%)	10,225 (15.6%)	1,040 (1.6%)	35,618 (54.3%)	277 (0.4%)	65,633 (100%)
Niles–Benton Harbor	177 (0.3%)	228 (0.4%)	1,549 (2.6%)	408 (0.7%)	2,472 (4.2%)	242 (0.4%)	37,271 (62.6%)	59,530 (100%)
Total employed in MSA	34,561	47,090	350,498	98,276	126,558	54,856	55,711	

Economic Growth Slowed in the First Quarter

Although employers added more than 430,000 jobs in the first quarter, economic growth fell to a 1.8 percent annual rate during the quarter, down from a 3.1 percent pace recorded during the final quarter of last year. Worse yet, a large portion of the quarter's economic activity was nothing more than businesses restocking their shelves, as growth in final sales to domestic purchasers reflected only a 0.7 percent annualized rate. Rising gas prices, lousy weather, a dead real-estate market, and government cutbacks in military spending contributed to the quarter's lackluster performance. The unresolved question is whether the disappointing quarter was only a hiccup or the start of a slowdown.



According to the Institute for Supply Management, the quarter's inventory restocking was planned in anticipation of strong incoming orders. In addition, private employers hired 268,000 workers in April, the largest gain in over five years. The month's employment gains were extremely broad-based, with only two or three sectors experiencing employment declines, including sporting goods and bookstores. These areas showed declines in part because of the bankruptcy filing of Borders Books, the troubles of the financial sector, and the decreased use of temporary employment agencies, which suggests that employers may be offering more temps permanent positions.

Consumers Took a Short Rest

Consumer spending increased at a sluggish 2.2 percent annualized rate during the quarter, down from a 4.0 percent annualized pace in the previous quarter. Consumer confidence was lackluster, and, while overall inflation is still very mild, gas and food prices have increased substantially, making some consumers edgy.

Inflation as measured by the Consumer Price Index (CPI) rose 2.7 percent in March, which was the largest jump since the end of 2009; however, again the increase was due to higher gas and food prices. Taking these two categories out of the

equation drops the increase in the "core" CPI from last year to only 1.2 percent. Gas prices have increased by 27.5 percent in the past 12 months, and food prices are 2.9 percent higher than a year ago.

Fortunately, consumer confidence, as measured by the Conference Board's Consumer Research Center, improved slightly in April, after declining for the past several months; however, it remains at a pretty low level. Although consumers still are worried about gas and food prices, their assessment of current conditions improved during the month. Moreover, retailers reported a good month in April, due, in part, to a late Easter. According to the Thomson Reuters Index, as reported by CNN.com, same-store sales increased by nearly 9 percent from March despite the jump in gas and food prices.

They Can't All Be White Elephants

Home prices continued to fall, dropping 3.3 percent in February for the seventh straight month of decline. According to the S&P/Case Shiller Home Price Index, prices in the 20 largest cities are down 32 percent from their peak five years ago. A year ago, the nation's real estate markets were showing signs of a rebound; however, they have recently retreated to their April 2009 low.

Prices are being pulled down by an ever-growing supply of foreclosed homes and other distressed properties, with bank repossessions and short sales accounting for more than 30 percent of home sales. According to the National Association of Realtors (NAR), the median home price has fallen to just under \$160,000, nearly 6 percent below last year's price.

Still, it is not all doom and gloom. The U.S. Census Bureau reported that housing starts increased 7.2 percent in March to an annual rate of 549,000 units, up from a revised 512,000 in February. In addition, building permits are up 11 percent from February. Still, for the quarter, residential construction spending fell at a 3.3 percent annualized rate.

Finally, the NAR reported that home sales rose at an annualized rate of 5.1 million in March, up 3.7 percent from the month before. Then again, NAR also reported that sales are still down 6.3 percent from a year ago.

One of the major challenges facing the market is how to increase the ability of potential home buyers to get a mortgage. According to the NAR, the average credit score for an approved conventional mortgage has increased to 760, up from 720 in 2007, making it harder for prospective homeowners to qualify. Another challenge is that many homeowners are underwater in terms of owing more on their mortgages than their houses are now worth. According to a survey in May by Zillow.com, 28.4 percent of single-

family homeowners with mortgages are underwater, up from 27.0 percent in the previous quarter. Given the stricter credit standards and sellers not willing to take a loss, it is not surprising that the Federal Reserve's latest survey of senior loan officers found that the demand for residential mortgages, in fact, declined in the first quarter.

Manufacturing Is Still Going Strong

According to the Institute for Supply Management (ISM), the manufacturing sector is steaming through its twenty-first consecutive month of growth. A reading of the Purchasing Managers Index of over 50 indicates an expanding manufacturing sector. The PMI has been above 60 for five straight months. Seventeen of the eighteen industrial sectors that are monitored by ISM reported growth during April. Furniture was the only industry suffering a slowdown.

In addition, our nation's export of goods rose at a strong 9.2 percent annualized rate in the quarter. In fact, the nation's export of goods has been positive for the past seven quarters.

Fiscal Policy Is in Retreat while Monetary Policy Holds the Course

Federal government spending fell at a 7.9 percent annualized rate in the first quarter because of substantial cuts in military spending. In addition, state and local spending fell at a 3.2 percent annualized rate. Government cutbacks took 1.1 percent off of the quarter's performance. With the debate in Washington focused on addressing the growing national deficit, fiscal policy will probably remain a drag on the national economy because of the likely combination of reduced government expenditures and higher taxes. Fortunately, although the federal debt is growing, its feared negative impact of pushing up interest rates and inflation has not yet been seen on anyone's radar.

The Federal Reserve (the Fed), on the other hand, is continuing its easy-money policies. Although higher gas prices and recent price increases in other commodities are making inflation hawks edgy, the Fed has signaled that it plans to keep short-term rates low for "an extended period." It is still planning to buy up to \$600 billion in long-term Treasury bonds through the end of June as part of its "quantitative easing" strategy. However, the Fed has also indicated that it will end the nontraditional buying of long-term Treasuries after that date. Instead, the Fed will return its focus to keeping the federal funds rate next to zero through standard open-market operations. This stance is supported by its updated economic forecast, which calls for lower growth than had been earlier expected (see last paragraph in the next column).

The Financial Sector Is Still Holding Back

Banks still hold \$1.4 trillion dollars in excess reserves, which has limited the effectiveness of the Fed's easy money policies.

Fortunately, the latest survey of senior loan officers finds that the surveyed banks have eased their lending standards because of increased competition from other lenders and are experiencing an increase in the demand for commercial and industrial loans.



The Outlook Has Been Trimmed

The Federal Reserve has lowered its output forecast for 2011 and raised its prediction on inflation. Instead of a robust economy cruising along at between 3.4 and 3.9 percent, the Reserve Board sees it chugging along at between 3.1 and 3.3 percent. At the same time, prices are now expected to climb between 2.1 and 2.8 percent during the year instead of a more comfortable 1.3 to 1.7 percent.

REGIONAL ECONOMY

The Great Lakes Region Has Some Game

The Chicago Federal Reserve's *Beige Book* report, released in mid-April, was guardedly optimistic. The bank's regional analysts found that business activity in the Great Lakes region remained positive. The region's manufacturers, especially in steel, autos, and heavy equipment production, reported strong numbers. Contacted banks indicated that commercial and industrial loan activity was improving, especially in manufacturing and health care.

Consumer spending remained strong, but consumers are still price-conscious. Despite the strong spending, contacted banks reported little change in consumer lending, and mortgage applications were slow.

According to the businesses contacted, hiring is on the rise for both temporary and permanent employees, and manufacturers are complaining about their inability to find skilled workers. Construction activity remains "subdued," and contacted homebuilders indicated that the spring construction season has been below expectations. Buyers are either waiting for better deals or having a difficult time securing financing.

Manufacturing activity was resurgent in all five Great Lakes states during the 12 months ending in March. Michigan led the other four states with a robust 6.3 percent increase in manufacturing employment, which pushed its overall employment up by 2.0 percent. Wisconsin saw a 4.0 percent jump in manufacturing, and in Indiana manufacturing employment increased by 3.4 percent.

As a whole, the region outperformed the rest of the country—again because of its robust manufacturing sector. Manufacturing employment grew by 3.3 percent in the Great Lakes states, compared to only 1.3 percent outside the five-state region. Finally, the region's total employment was up 1.4 percent, compared to the nation's 0.9 percent increase.

The latest readings of the Chicago Federal Reserve's Midwest Economy Index and its Midwest Manufacturing Index were strong. The Midwest Economy Index compares the region's economic performance to the nation's, so any reading greater than 0 means that the region grew faster than the nation. It takes into consideration 128 regional indicators across manufacturing, construction, services, and consumer spending. In March, again pushed by the region's robust manufacturing sector, the index increased to 0.78—its highest reading since 1999. March was the sixth straight month of above-trend growth in the index.

The Chicago Fed's Midwest Manufacturing Index rose by 1.9 percent in March. All four sectors covered by the index improved during the month: auto production was up 4.7 percent; steel, 2.3 percent; machinery, 1.6 percent; and the aggregated resource sector (which includes the wood, paper, chemicals, and nonmetallic subsectors) was up 0.9 percent.

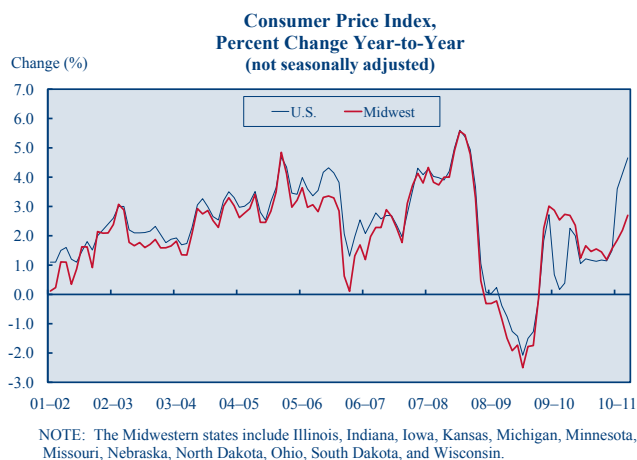
Great Lakes Employment and Earnings^a

Great Lakes region	March 2011	March 2010	Percent change	Great Lakes region	March 2011	March 2010	Percent change
Illinois				Ohio			
Total employment	5,590,800	5,515,500	1.4	Total employment	5,018,500	4,945,300	1.5
Mfg. employment	560,000	552,500	1.4	Mfg. employment	621,600	608,300	2.2
Avg. weekly hours	40.1	39.7	1.0	Avg. weekly hours	40.5	40.3	0.5
Avg. hourly earnings	\$17.56	\$16.80	4.5	Avg. hourly earnings	\$19.21	\$18.49	3.9
Indiana				Wisconsin			
Total employment	2,786,700	2,755,000	1.2	Total employment	2,704,200	2,677,600	1.0
Mfg. employment	452,700	437,900	3.4	Mfg. employment	437,300	420,600	4.0
Avg. weekly hours	42.6	41.8	1.9	Avg. weekly hours	40.3	40.2	0.2
Avg. hourly earnings	\$17.85	\$18.42	-3.1	Avg. hourly earnings	\$17.83	\$18.16	-1.8
Michigan				United States			
Total employment	3,861,700	3,786,000	2.0	Total employment (000)	130,738	129,438	1.0
Mfg. employment	488,400	459,500	6.3	Mfg. employment (000)	11,667	11,471	1.7
Avg. weekly hours	45.6	43.3	5.3	Avg. weekly hours	41.5	41.0	1.2
Avg. hourly earnings	\$22.01	\$21.61	1.9	Avg. weekly hours	\$18.92	\$18.49	2.3

NOTE: March 2011 numbers are preliminary.

^aEmployment numbers are seasonally adjusted for both the nation and the states. Average weekly hours and earnings are seasonally adjusted for the nation only.

SOURCE: U.S. Bureau of Labor Statistics (BLS).



Cost Pressures Are Building but Consumer Prices Hold Steady

Besides fuel, raw material prices—especially in steel, other industrial metals, plastics, and food stocks—have been on the rise. Firms have seen some success in passing these

price increases on to their customers, except for contacted residential builders, who are still facing poor market conditions. The region's consumer price index is much quieter than the national index. As of the end of March, the regional index had inched up 2.8 percent from a year earlier, compared to a 4.2 percent rise nationwide.

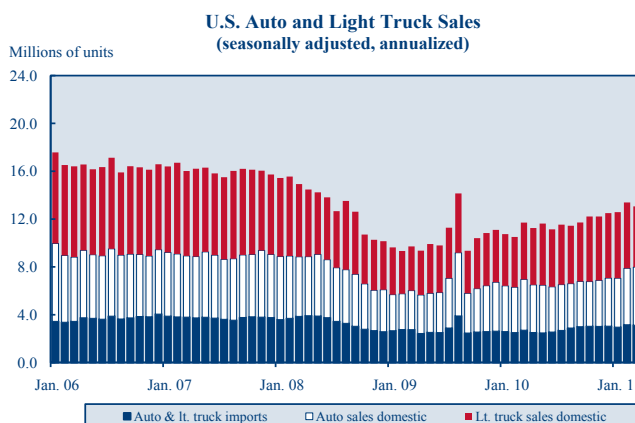
AUTO INDUSTRY UPDATE

The Detroit Three are having a great year so far. Sales are up 21 percent during the first four months of the year compared to the same period last year. General Motors has led the way, registering a 25.2 percent increase, according to Ward's AutoInfoBank. Ford sales were reportedly hindered by a shortage of its best-selling models: its smaller Focus and Fiesta, as well as its Explorer SUV. Its sales grew by only 15.4 percent in comparison. Indeed, Ford had only a 56-day inventory in April, compared to a 67-day inventory at GM and a 70-day stock at Chrysler.

As of April, the Detroit Three's share of the market had grown to 46.4 percent, up from 44.9 percent a year ago. The Asian producers recorded sales increases of 18.5 percent for the same period, which was lower than the sales increases overall for cars and light trucks of 19.4 percent. The Asian producers, however, are facing even worse inventory problems than Ford. South Korean automakers Hyundai and Kia have inventories that are down to 29 days. Honda's inventories are down to 37 days, and Toyota is at a 47-day inventory. Both Honda and Toyota have been hindered by the deadly earthquake and tsunami that struck Japan in March.

High gas prices, high unemployment, and a continuously depressed construction industry have all hurt pickup truck sales; their share of total sales plunged to a 31-year low in April.

According to the *Kelley Blue Book*, used-car values have been on the rise this year, due in part to a shortage of newer



used cars because of the drop in sales over the past three years. For example, a three-year-old Ford Explorer is selling for \$14,100 today, compared to only \$7,100 in 2007, according to the *Kelley Blue Book*. Not surprisingly, high gas prices are pushing the value of the more fuel-efficient models higher than for the industry's other segments.

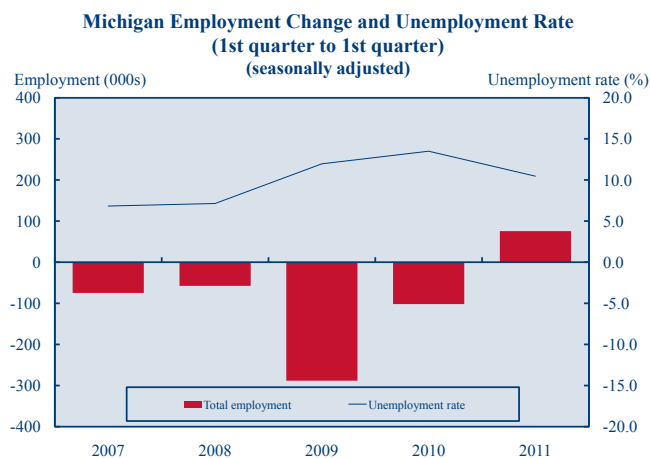
Still, new autos remain affordable. According to Comerica Bank, as of the final quarter of last year, it took 23.2 weeks of the nation's median annual family income to purchase and finance the average-priced new car or truck, 0.5 weeks less than it took in the third quarter. The bank analysts found that consumers are buying less expensive vehicles, in part to offset rising financing costs and in part because smaller vehicles tend to get better gas mileage.

STATE OF MICHIGAN ECONOMY

It Was a Very Good Quarter

Total employment rose by a healthy 1.1 percent in the state during the first quarter of the year. With employers generating a net increase of 41,200 jobs, the state's unemployment rate fell to 10.5 percent in the quarter. Despite the quarter's robust job growth, statewide indicators were mixed, suggesting that employment growth may slow in the coming months.

The state's goods-producing sectors soared by 3.4 percent during the quarter, a gain of nearly 21,000 jobs. Manufacturing employment was driven by the state's auto-dominated durable-goods sector, which increased by 3.2 percent, or by 15,960 jobs. It should be noted that much of this increase is due to seasonal adjustment factors. In fact, manufacturers hired only 5,000 workers in the quarter. However, since historically the first quarter has been a weak quarter for durable-goods employment growth, when the actual employment increase is seasonally adjusted it more than triples in size. Employment in the state's nondurable-goods sector was flat.



Employment in the state's construction industry rose by 4.3 percent during the quarter. Still, the sector employs only 75 percent of the number of workers it had during the first quarter of 2007.

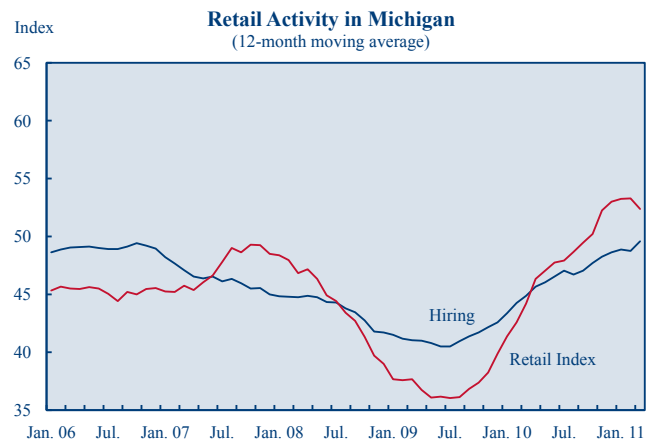
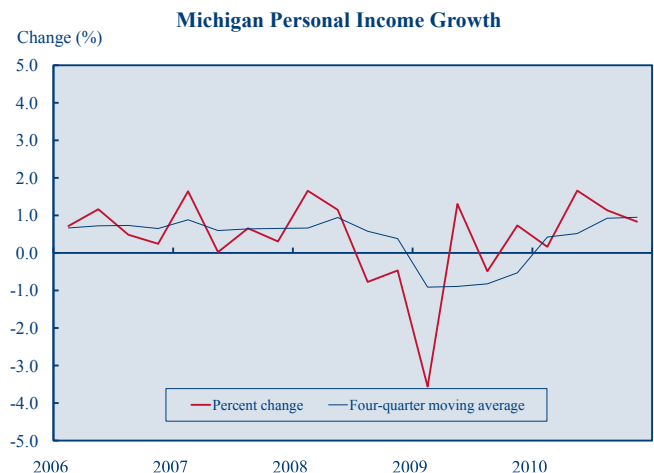
The state's private sector increased by 1.0 percent in the first quarter. Much of the quarter's growth, especially in trade and transportation, was due to the spin-off effects of the robust growth of the state's manufacturing sector. In fact, it would take only a 2.6 employment multiplier effect—a reasonable projection—for the quarter's manufacturing gains to have generated all the jobs created in private services. In other words, if every new manufacturing job generates another 1.6 jobs in the state from its impact on statewide suppliers, retailers, and consumer services, then it would account for all of the quarter's growth in the private sector.

The quarter's economic growth is supported by gains in the state's personal income. Michigan's personal income has been on the rise for four straight quarters and increased by

1.0 percent in the fourth quarter of last year. Not surprisingly, retail sales have been positive as well. The Chicago Federal Reserve survey of state retailers, completed in association with the Michigan Retailers Association, shows a strong hiring trend, although retail activity has slowed somewhat in the past month.

Professional and business services reported strong gains for the quarter: 12,840 new jobs. Because this sector includes temporary employment workers, it is likely that it was directly affected by manufacturers' demand for temporary workers. In fact, the number of temp workers increased by 23 percent in the first quarter from the same quarter last year. If the state follows national trends, it is possible that the number of temporary workers will slow or even decline as more and more manufacturers offer their temp workers payroll positions.

On the downside, budget cuts continue to force state and local governments to cut their workforce. Combined, all levels of government in the state cut 5,000 workers from their payrolls



NOTE: Index = percent reporting an increase in sales + [0.5 x (% reporting no change)].

Michigan Statistics
(seasonally adjusted)

Measure	2011 Q1	2010 Q4	% change, Q4 to Q1	2010 Q1	% change, Q1 to Q1
Employment (by place of work)					
Total nonfarm employment	3,913,180	3,871,950	1.1	3,839,770	1.9
Goods-producing	630,100	609,140	3.4	591,670	6.5
Natural resources and mining	7,300	7,170	1.8	6,970	4.7
Construction	128,400	123,130	4.3	121,800	5.4
Manufacturing	494,400	478,840	3.2	462,900	6.8
Durable goods	370,130	354,170	4.5	340,070	8.8
Nondurable goods	124,270	124,670	-0.3	122,830	1.2
Private service-providing	2,662,250	2,636,980	1.0	2,609,600	2.0
Trade, transportation, and utilities	717,270	709,240	1.1	707,470	1.4
Transportation and utilities	115,230	113,770	1.3	111,900	3.0
Wholesale trade	154,770	151,600	2.1	149,770	3.3
Retail trade	447,270	443,870	0.8	445,800	0.3
Information	54,670	54,630	0.1	54,600	0.1
Financial activities	187,770	186,570	0.6	187,370	0.2
Professional and business services	536,070	523,230	2.5	504,330	6.3
Educational and health services	627,400	624,370	0.5	613,200	2.3
Leisure and hospitality	372,070	371,070	0.3	375,630	-0.9
Other services	167,000	167,870	-0.5	167,000	0.0
Government	620,830	625,830	-0.8	638,500	-2.8
Unemployment					
Number unemployed	496,680	541,060	-8.2	648,900	-23.5
Unemployment rate (%)	11.0	11.4		13.5	
State indexes (1996=100)					
Local components					
UI initial claims	15,431	14,355	7.5	21,781	-29.2
New dwelling units ^a	7,642	7,553	1.2	9,452	-19.1

NOTE: Employment numbers for durable, nondurable goods, transportation and utilities, wholesale trade, and retail trade are seasonally adjusted by the W.E. Upjohn Institute. Other numbers are seasonally adjusted by the Bureau of Labor Statistics. Categories may not sum to total because of rounding.

^a Seasonally adjusted annual rates.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from F.W. Dodge Division, McGraw-Hill Information Systems Company; and employment data from the Michigan Department of Energy, Labor, and Economic Growth.

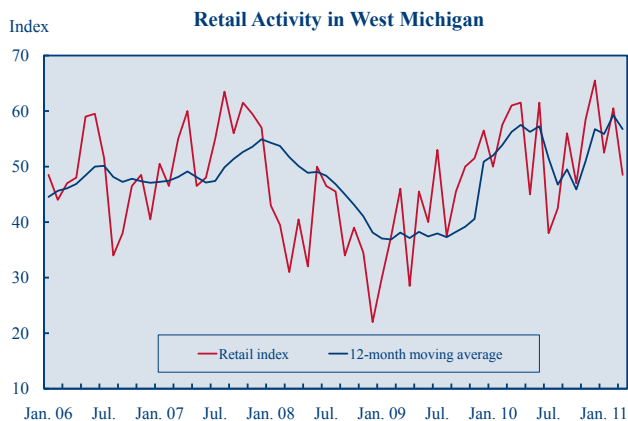
during the quarter and have eliminated nearly 18,000 workers in the past year. The state's unemployment rate fell to 10.5 percent during the quarter, as the number of unemployed workers declined by 8.2 percent.

The state's economic indicators were mixed during the quarter: the number of new claims for unemployment insurance rose by 7.5 percent, suggesting sluggish employment growth in the coming months; however, the number of new contracts for residential construction was up 1.2 percent. Comerica Bank's Michigan Economic Activity Index moved up one point in March as well. Finally, a survey of the state's business leaders conducted by the nonprofit organization Business Leaders of Michigan found that two-thirds of the surveyed business representatives believe that the state's economy will be better 18 months from now.

WEST MICHIGAN ECONOMY

Mixed Trends Yield a Modestly Positive First Quarter

Total west Michigan employment rose by 0.2 percent last quarter, as five of the six metropolitan areas that compose the region reported job gains. The private service-providing sector was the primary source of new jobs, while the goods-producing sector held steady and government payrolls shrank. Fortunately, labor market conditions showed improvement and pushed the region's overall unemployment rate down to 9.2 percent. Regional economic indicators leaned in a positive direction during the first quarter; however, trends were unevenly distributed, and it appears that some metro areas may do better than others over the next few months.



Goods-producing employment was held flat during the first three months of the year by diverging trends in manufacturing and in the construction and mining sector. Although west Michigan manufacturers added more than 1,100 workers during the period, the smaller construction and mining sector was hard hit and posted a large 4.3 percent decline, which was equal to a loss of just over 1,100 jobs. Unfortunately, both commercial and residential construction activity remain very slow in the region, and recent reports indicate that lackluster conditions are expected to continue in the months ahead.

Manufacturing-sector employment in west Michigan rose by 0.8 percent during the quarter, which was positive but small compared to the impressive 3.2 percent gain seen statewide. At the regional level, four of the six metro areas in west Michigan reported gains in manufacturing-sector employment during the first quarter, with the strongest growth overall coming from durable-goods producers. One reason is that two of west Michigan's dominant industries have been performing better: automotive firms reported strong results statewide, though the benefits have been slow to trickle down to the region. Also, the region's large office furniture industry finished 2010 with an estimated 5.8 percent increase in U.S. production, according to the latest figures from the trade group BIFMA, the Business and Institutional Furniture Manufacturer's Association.

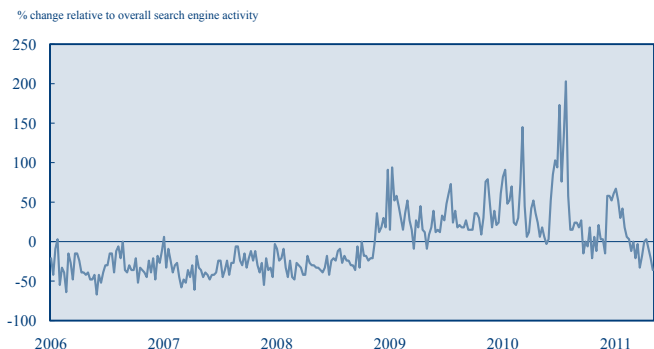
The bulk of job growth in west Michigan has come out of the service-providing sector, which added nearly 2,700 jobs during the first quarter. The largest increase occurred in business and professional services, which added half of all the

net new jobs in the private service-providing sector during the period. Across other service industries, employment growth was widespread: only leisure and hospitality reported a loss. Even the struggling retail trade sector managed to add workers; however, recent reports from the Michigan Retailers Association suggest that any growth may be short-lived. As shown in the table of west Michigan retail activity, the index of retail activity fell from its 2010 peak during the first quarter of that year to a level that indicates more retailers are reporting slowing sales conditions than are reporting stable or expanding sales conditions.

The largest employment decline during the first quarter occurred in the government sector, which eliminated nearly 1,000 workers. Negative employment trends for the public sector are expected to continue in the near term given expectations of state-level budget reductions, as well as the ending of federal stimulus funds that had initially helped some agencies weather the recession.

Fortunately, west Michigan's regional economic indicators remained mostly positive during the first quarter. The most important sign may be the ongoing improvement in labor market conditions, a trend illustrated by the decline in initial claims for unemployment insurance benefits as well as the positive hiring outlook reported in the Manpower employment survey for the greater Grand Rapids region. Additionally, data from Google Insights on local Internet search patterns suggest that interest in unemployment and welfare topics has declined to levels last seen in 2008. Changes in welfare and unemployment search interest usually accompany changes in the unemployment rate; therefore, further reductions in the region's unemployment rate are anticipated over the next few months.

Change in Interest in the Search Topic "Welfare and Unemployment in West Michigan," as Measured by Google Insights for Search



On the downside, the residential housing market remains a negative indicator for the region. The number of contracts for new dwelling units issued fell 17.1 percent during the quarter and was down substantially compared to the same time last year. Although some of the decline over the past year can be attributed to the expiration of federal home-buying incentives, it is clear that the market for new homes has yet to fully recover after several dismal years.

West Michigan (6 MSAs) Statistics
(seasonally adjusted)

Measure	2011 Q1	2010 Q4	% change, Q4 to Q1	2010 Q1	% change, Q1 to Q1
Employment (by place of work)					
Total nonfarm employment	782,670	780,950	0.2	769,620	1.7
Goods-producing	164,050	164,030	0.0	160,110	2.5
Construction and mining	25,220	26,340	-4.3	25,680	-1.8
Manufacturing	138,830	137,690	0.8	134,430	3.3
Private service-providing	519,520	516,840	0.5	508,130	2.2
Trade, transportation, and utilities	138,870	138,500	0.3	138,330	0.4
Retail trade	83,660	83,500	0.2	83,450	0.3
Information (5 MSAs) ^a	8,230	8,180	0.6	7,660	7.4
Financial activities	35,120	35,030	0.3	34,840	0.8
Professional and business services	101,740	100,400	1.3	92,570	9.9
Educational and health services	127,850	126,950	0.7	126,490	1.1
Leisure and hospitality	71,240	71,560	-0.4	71,580	-0.5
Other services	36,470	36,220	0.7	36,660	-0.5
Government	99,100	100,080	-1.0	101,380	-2.2
Unemployment					
Number unemployed	83,700	93,150	-10.1	108,240	-22.7
Unemployment rate (%)	9.2	10.2		11.9	
Local indexes					
UI initial claims	2,003	2,261	-11.4	2,708	-26.0
New dwelling units ^b	1,592	1,921	-17.1	2,102	-24.3

NOTE: Categories may not sum to total because of rounding.

^a Information employment data are not available for Battle Creek MSA.

^b Seasonally adjusted annual rates. Van Buren County is not included.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from F.W. Dodge Division, McGraw Information Systems Company; and employment data from the Michigan Department of Energy, Labor, and Economic Growth.

OFFICE FURNITURE INDUSTRY UPDATE

The office furniture industry, which has a large presence in west Michigan, grew at a slower pace during the first three months of the year than it had been. According to the latest trends survey of the industry by Michael A. Dunlap and Associates, the overall industry index for April, 55.38, was down slightly from the previous quarter's reading of 57.01. Although the index reading remained above 50—the level that differentiates expansionary conditions from contractionary conditions—the reduction suggests that the pace of industry growth has slowed slightly.

Over the long term, the office furniture industry still appears to be on the path to recovery after several difficult years. During the first quarter of 2011, approximately 5,800 workers were employed by the furniture-and-related-goods manufacturing industry in the Grand Rapids–Wyoming MSA. Although the metro area's furniture industry employment remains at only half of the 11,500 workers that were employed in 2001, the first-quarter reading represents a 6.8 percent increase over the previous year. During both 2009 and 2010, the furniture industry had declined at a rapid pace because of the national recession, as shown in the accompanying table.

Grand Rapids MSA Furniture Manufacturing Employment

	2011 Q1	2010 Q1	2009 Q1
Average quarterly industry employment	5,800	5,430	6,270
Change from previous year (%)	6.8	-13.4	-5.5

Of course, even if the office furniture firms in west Michigan are still struggling to recover, they should benefit in the long run from a resurgent national market. According to the latest projections from BIFMA, U.S. office-furniture production is expected to increase by 14 percent through the end of this year and by 8.4 percent in 2012.

BATTLE CREEK MSA

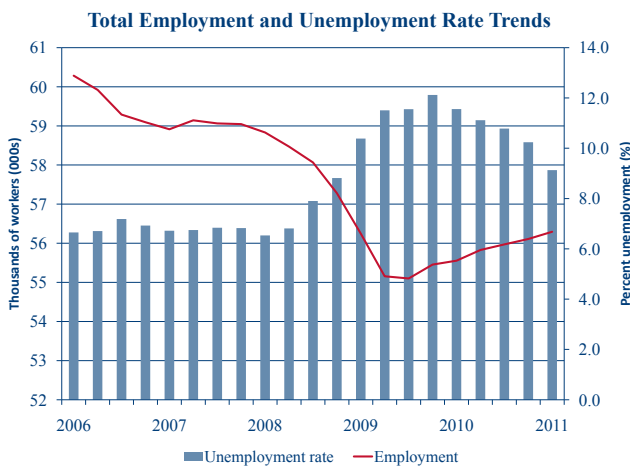
Job Growth Was Widespread but Modest Overall

Employment in the Battle Creek MSA increased by 0.3 percent during the first three months of the year as conditions improved in all major sectors. As a result, the area's unemployment rate dropped by more than one full point, to 9.1 percent. Overall, the first quarter was good for the region; however, a negative trend in new-dwelling-unit contracts does suggest that the local housing market will remain weak in the near term.

When viewed from a historical perspective, current employment levels are flat, although there has been improvement since the depths of the recession. Of the five sectors illustrated in the chart in the right-hand column, only manufacturing and trade, transportation, and utilities still have employment levels near the five-year low.

Government employment expanded by 1.2 percent, an increase of 130 jobs. Most of the growth has likely been occurring at Firekeepers Casino, which recently announced plans to expand its gaming operations in Calhoun County to accommodate strong demand. The casino's workers are classified as government-sector employees because of the tribal ownership status of the facility.

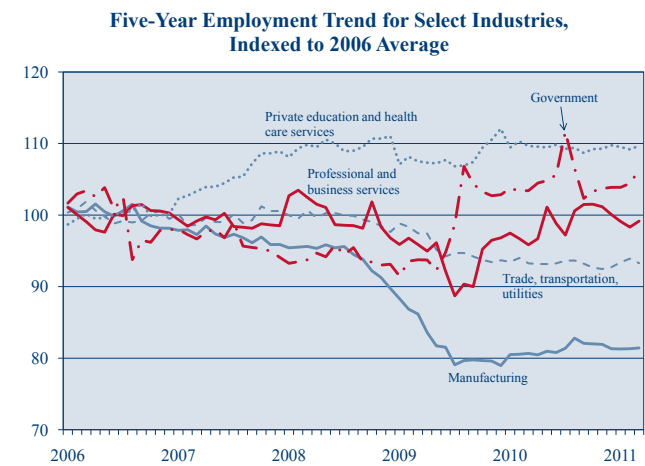
Employment at traditional government agencies has mostly been trending downward. Between the third quarter of 2009 and the third quarter of 2010, federal employment shrank by 2.3 percent and state office employment fell by 4.5 percent. Local government employment, which includes public schools, rose 1.1 percent during the same period.



The goods-producing sector posted a net employment gain of 0.2 percent last quarter as a result of the surprising strength of construction and mining employment, which swelled by 4.7 percent. Overall, construction and mining sector employment levels have rebounded by a whopping 24.1 percent over the past year despite tepid conditions in the market for new homes.

Unfortunately, manufacturing job losses tempered the overall pace of growth in the goods-producing sector. The manufacturing sector shrank by 0.5 percent as nondurable-goods producers eliminated 100 jobs. Fortunately, the loss was partially offset by a 50-worker increase among durable-goods producers.

The service-providing sector eked out a slight 0.1 percent employment increase during the first quarter. Although most components of the service-providing sector posted modest growth during the period, these gains were offset by a sizable 120-job cut in professional and business services employment, as well as the loss of 70 jobs in leisure and hospitality. On a positive note, a new hotel and convention center is being constructed on the grounds of Firekeepers Casino, and the new facility should employ 400 workers when it opens next summer.



Overall, the quarter was good for workers in Calhoun County. The number of initial claims for unemployment insurance dropped by 12.3 percent, which suggests fewer layoffs and an improving environment for job seekers. On the downside, the new housing market, as measured by the number of contracts for new dwelling units, shrank during the quarter. Although the number of new dwelling units rose compared to a year ago, the annualized pace of only eight new housing units that was reported during the quarter represents an essentially stagnant market.

Battle Creek MSA
(seasonally adjusted)

Measure	2011 Q1	2010 Q4	% change, Q4 to Q1	2010 Q1	% change, Q1 to Q1
Employment (by place of work)					
Total nonfarm employment	55,740	55,650	0.2	55,220	0.9
Goods-producing	12,220	12,190	0.2	11,770	3.8
Construction and mining	1,800	1,720	4.7	1,450	24.1
Manufacturing	10,420	10,470	-0.5	10,320	1.0
Durable goods	7,000	6,950	0.7	6,800	2.9
Nondurable goods	3,420	3,520	-2.8	3,520	-2.8
Private service-providing ^a	32,950	33,020	-0.2	33,020	-0.2
Trade, transportation, and utilities	8,970	8,880	1.0	8,980	-0.1
Retail trade	5,780	5,770	0.2	5,810	-0.5
Financial activities	1,310	1,300	0.8	1,340	-2.2
Professional and business services	6,000	6,120	-2.0	5,860	2.4
Educational and health services	9,810	9,810	0.0	9,840	-0.3
Leisure and hospitality	4,540	4,610	-1.5	4,680	-3.0
Other services	2,320	2,300	0.9	2,320	0.0
Government	10,570	10,440	1.2	10,430	1.3
Unemployment					
Number unemployed	6,130	6,830	-10.2	7,760	-21.0
Unemployment rate (%)	9.1	10.2		11.6	
Local indexes					
UI initial claims	199	227	-12.3	266	-25.2
New dwelling units ^b	8	25	-68.0	4	100.0

NOTES: Categories may not sum to total because of rounding.

^a Data for information services is included in the "other services" sector.

^b Seasonally adjusted annual rates.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from F.W. Dodge Division, McGraw-Hill Information Systems Company; and employment data from the Michigan Department of Energy, Labor, and Economic Growth.

Battle Creek MSA
Industry Employment Change by Place of Work, Third Quarter to Third Quarter
(not seasonally adjusted)

Industry	2010 Q3	2009 Q3	Percent change	Industry	2010 Q3	2009 Q3	Percent change
Goods-producing				Ambulatory health care services	2,840	2,810	1.1
Food manufacturing	2,420	2,310	4.8	Arts, entertainment, and recreation	840	860	-2.3
Fabricated metal products mfg.	1,680	1,270	32.3	Accommodation and food services	3,980	4,060	-2.0
Transportation equipment mfg.	3,580	3,740	-4.3	Food services and drinking places	3,650	3,840	-4.9
Private service-providing				Government			
Professional and technical services	2,220	2,190	1.4	Federal government	2,980	3,050	-2.3
Administrative and support services	2,540	2,320	9.5	State government	420	440	-4.5
Educational services	1,290	1,190	8.4	Local government	6,310	6,240	1.1
Health care and social assistance	7,870	7,800	0.9				

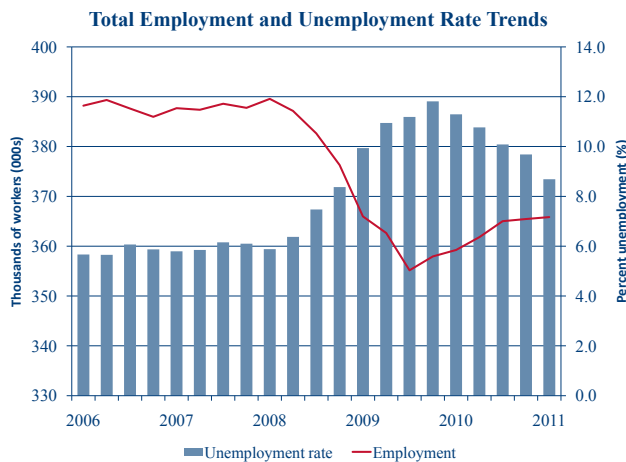
SOURCE: Michigan Department of Energy, Labor, and Economic Growth, QCEW/ES-202 data.

GRAND RAPIDS–WYOMING MSA

Service Providers Shine While Other Sectors Languish

The Grand Rapids–Wyoming MSA experienced a modest 0.1 percent employment increase during the first quarter. The private service-providing sector grew, however, offsetting job losses incurred in the goods-producing sector and in government. Fortunately, labor market conditions still improved substantially, and the unemployment rate fell to 8.7 percent. One can hope that these improvements will continue over the next few months, based on a mostly positive reading of the region's economic indicators.

Long-term trends in several of the region's industries are promising. As shown in the chart to the right, despite its performance during the first quarter, the professional and business services sector has mostly recovered from a recessionary dip, while educational and health services remains on a steady growth trajectory. Even manufacturing employment has improved over the past year, although the overall level remains low compared to a few years ago.

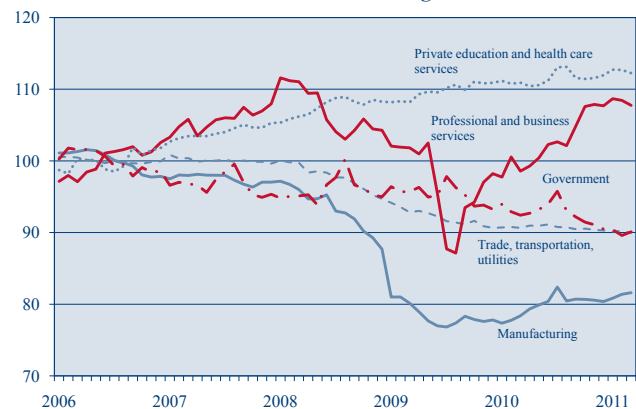


During the first quarter, goods-producing employment slipped down 0.1 percent because of continued weakness in the mining and construction sector, which was largely a result of the continued dearth of demand for new construction in the region. Unfortunately, commercial construction remains down, one indication of that being first-quarter reports from commercial real estate firm Colliers International. The number of new residential dwelling units placed under contract also fell during the first quarter.

Manufacturing employment rose 0.9 percent last quarter, although this was not quite enough to offset the losses reported by the mining and construction sector. Most of the increase in manufacturing employment occurred among durable goods producers, which added 490 workers; however, the region's nondurable-goods producers also reported a modest gain during the first quarter. In a sign of more good news, the nondurable-goods sector should see an uptick over the next five years as Hearthside Foods adds 302 workers to three of its snack-food processing facilities that operate in the region.

The service-providing sector drove employment growth in the region last quarter with a 0.3 percent employment increase, equal to more than 800 jobs. Nearly all of the service subsectors reported growth; the biggest gain was reported by the educational and health services sector, which added 500 jobs. Professional and business services employment has also been doing well; the sector added 310 jobs during the quarter and can expect 127 more to come soon, based on the recently announced decision by food distributor Gordon Food Services to consolidate office, backroom, and information technology (IT) activities at a new headquarters to be built in Wyoming. The only net job loser was trade, transportation, and utilities, which was hampered by reductions at area retailers.

Five-Year Employment Trend for Select Industries, Indexed to 2006 Average



Government employment plunged 1.1 percent during the quarter, a loss of 310 jobs. Municipal agencies and public K–12 schools continue to be hard hit by the slow economic recovery and by funding cuts in Lansing. The exception has been federal government agencies, which added 420 jobs between the third quarter of 2009 and the third quarter of 2010.

Overall, the first quarter of the year was a positive one for the Grand Rapids–Wyoming MSA. Fortunately, most regional economic indicators are positive and suggest that the expansion will continue into the summer months. Initial claims for unemployment insurance are down, and the most recent Manpower survey indicates that “employers expect to hire at a respectable pace” during the second quarter of the year. The only down indicator came from new-dwelling-unit contracts, which declined during the fourth quarter in a sign that new-home-construction activity will remain slow in the near term.

Grand Rapids–Wyoming MSA
(seasonally adjusted)

Measure	2011 Q1	2010 Q4	% change, Q4 to Q1	2010 Q1	% change, Q1 to Q1
Employment (by place of work)					
Total nonfarm employment	365,810	365,440	0.1	359,200	1.8
Goods-producing	71,450	71,530	-0.1	69,870	2.3
Construction and mining	12,080	12,690	-4.8	13,010	-7.1
Manufacturing	59,370	58,840	0.9	56,860	4.4
Durable goods	39,240	38,750	1.3	37,040	5.9
Nondurable goods	20,130	20,090	0.2	19,820	1.6
Private service-providing	260,810	259,990	0.3	254,640	2.4
Trade, transportation, and utilities	66,410	66,580	-0.3	66,840	-0.6
Transportation and utilities	9,420	9,430	-0.1	9,550	-1.4
Wholesale trade	20,480	20,520	-0.2	20,510	-0.1
Retail trade	36,510	36,630	-0.3	36,780	-0.7
Information	4,730	4,680	1.1	4,260	11.0
Financial activities	19,040	18,990	0.3	18,970	0.4
Professional and business services	58,550	58,240	0.5	53,500	9.4
Educational and health services	63,040	62,540	0.8	62,150	1.4
Leisure and hospitality	31,690	31,620	0.2	31,270	1.3
Other services	17,350	17,340	0.1	17,650	-1.7
Government	33,550	33,920	-1.1	34,690	-3.3
Unemployment					
Number unemployed	33,870	37,610	-9.9	43,640	-22.4
Unemployment rate (%)	8.7	9.7		11.3	
Local indexes					
UI initial claims	788	852	-7.5	1,036	-23.9
New dwelling units ^a	756	839	-9.9	939	-19.5

NOTE: Categories may not sum to total because of rounding.

^a Seasonally adjusted annual rates.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from F.W. Dodge Division, McGraw-Hill Information Systems Company; and employment data from the Michigan Department of Energy, Labor, and Economic Growth.

Grand Rapids–Wyoming MSA
Industry Employment Change by Place of Work, Third Quarter to Third Quarter
(not seasonally adjusted)

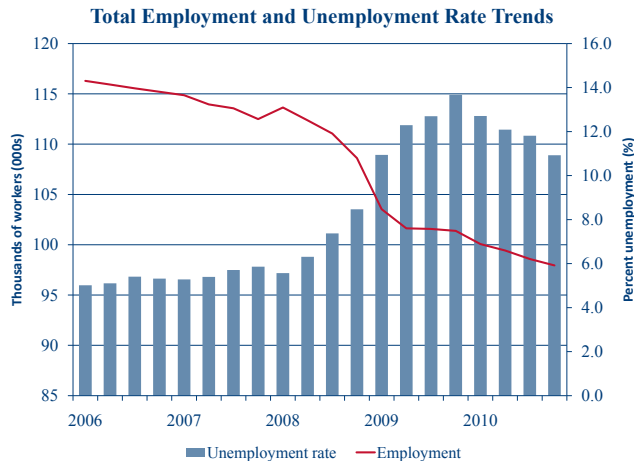
Industry	2010 Q3	2009 Q3	Percent change	Industry	2010 Q3	2009 Q3	Percent change
Goods-producing				Health care and social assistance	49,960	48,680	2.6
Food manufacturing	6,410	6,260	2.4	Ambulatory health care services	15,060	14,210	6.0
Chemical manufacturing	3,930	3,870	1.6	Hospitals	20,640	20,090	2.7
Plastics and rubber products mfg.	5,230	5,000	4.6	Arts, entertainment, and recreation	4,320	4,270	1.2
Fabricated metal products mfg.	5,770	5,280	9.3	Accommodation and food services	27,320	26,600	2.7
Machinery manufacturing	6,790	6,460	5.1	Food services and drinking places	25,110	24,330	3.2
Transportation equipment mfg.	8,860	8,360	6.0	Government			
Furniture and related products mfg.	5,670	5,930	-4.4	Federal government	3,910	3,490	12.0
Private service-providing				State government	3,290	3,630	-9.4
Professional and technical services	14,050	14,480	-3.0	Local government	27,300	28,110	-2.9
Administrative and support services	31,120	30,930	0.6				
Educational services	8,820	9,470	-6.9				

SOURCE: Michigan Department of Energy, Labor, and Economic Growth, QCEW/ES-202 data.

Manufacturing Employment Finally Takes Off

Employment jumped 0.5 percent in Ottawa County during the first three months of the year as a result of widespread growth across the private sector. Not surprisingly, the number of unemployed persons also shrank significantly and pushed the region's unemployment rate down to 8.8 percent. Regional indicators moved in a positive direction as well, which suggests that conditions will continue to improve over the next few months.

Much of the recent growth in total employment can be attributed to a recovery of jobs in some of the region's key industries. As shown in the chart in the right-hand column, both the business and professional services industry and the manufacturing industry are reporting employment levels that are up considerably over the lows reported during 2009. Some concern remains for the trade, transportation, and utilities sector, however, since employment has remained stuck in the doldrums despite reported upticks in both consumer spending and commercial shipments.



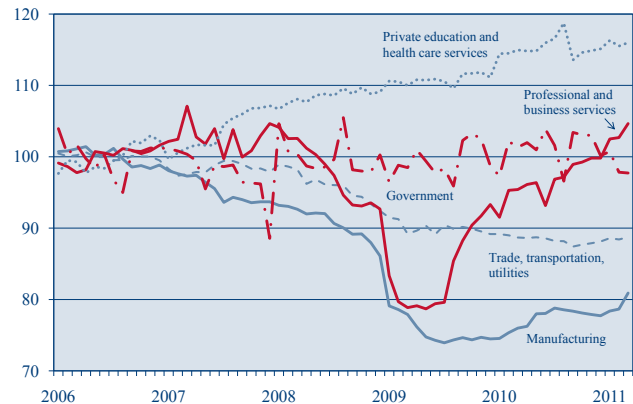
During the first quarter, growth in the goods-producing sector was surprisingly robust despite continued job losses in the mining and construction industry. Manufacturers led the way with a net gain of 520 workers, a 1.8 percent increase. One factor in recent trends has likely been the resurgence of the automotive sector, where supplier firms such as Gentex and LG Chem had previously announced major hiring plans. Additionally, the region can expect a boost from the expansion of two of the west Michigan facilities belonging to Multi Packaging Solutions Inc. The printing and packaging manufacturer plans to add 180 jobs by 2014 at its plants in Allegan and Holland.

The private service-providing sector posted a net gain of 790 jobs during the first quarter, which dwarfed the gains in the goods-producing sector and helped offset job losses in government. Within the private service-providing sector, professional and business services led the pack with a whopping 3.6 percent increase, which represents a 420-job gain over the previous quarter. Surprisingly, noteworthy employment bumps also occurred in several industries related

to consumer spending: the number of financial activities jobs jumped by 2.3 percent, and the trade, transportation, and utilities industry added 120 jobs, mostly as a result of a resurgent retail sector.

Government employment moved in the opposite direction of the private sector during the first quarter, as public payrolls plunged 3.2 percent. The net loss of 520 jobs was substantial and reduced the overall level of growth in the region.

Five-Year Employment Trend for Select Industries, Indexed to 2006 Average



Fortunately, local economic indicators were positive regarding the region's prospects for continued recovery during the coming months. A 14.8 percent reduction in new claims for unemployment insurance suggests that fewer layoffs are occurring and that competition for jobs should begin to wane. Additionally, the number of new dwelling units rose by 19.7 percent, which suggests that new home construction will begin to grow during the spring and early summer months.

Holland–Grand Haven MSA
(seasonally adjusted)

Measure	2011 Q1	2010 Q4	% change, Q4 to Q1	2010 Q1	% change, Q1 to Q1
Employment (by place of work)					
Total nonfarm employment	105,220	104,660	0.5	102,650	2.5
Goods-producing	32,970	32,680	0.9	31,740	3.9
Construction and mining	3,650	3,880	-5.9	3,910	-6.6
Manufacturing	29,320	28,800	1.8	27,830	5.4
Private service-providing	56,660	55,870	1.4	55,080	2.9
Trade, transportation, and utilities	16,010	15,890	0.8	16,080	-0.4
Retail trade	9,070	8,980	1.0	9,210	-1.5
Information	690	720	-4.2	790	-12.7
Financial activities	3,170	3,100	2.3	2,930	8.2
Professional and business services	11,980	11,560	3.6	10,920	9.7
Educational and health services	11,630	11,520	1.0	11,500	1.1
Leisure and hospitality	8,310	8,310	0.0	8,090	2.7
Other services	4,870	4,770	2.1	4,770	2.1
Government	15,590	16,110	-3.2	15,830	-1.5
Unemployment					
Number unemployed	11,280	12,870	-12.4	15,410	-26.8
Unemployment rate (%)	8.8	10.0		11.9	
Local indexes					
UI initial claims	293	344	-14.8	370	-20.8
New dwelling units ^a	444	371	19.7	395	12.4

NOTE: Categories may not sum to total because of rounding.

^a Seasonally adjusted annual rates.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from F.W. Dodge Division, McGraw-Hill Information Systems Company; and employment data from the Michigan Department of Energy, Labor, and Economic Growth.

Holland–Grand Haven MSA
Industry Employment Change by Place of Work, Third Quarter to Third Quarter
(not seasonally adjusted)

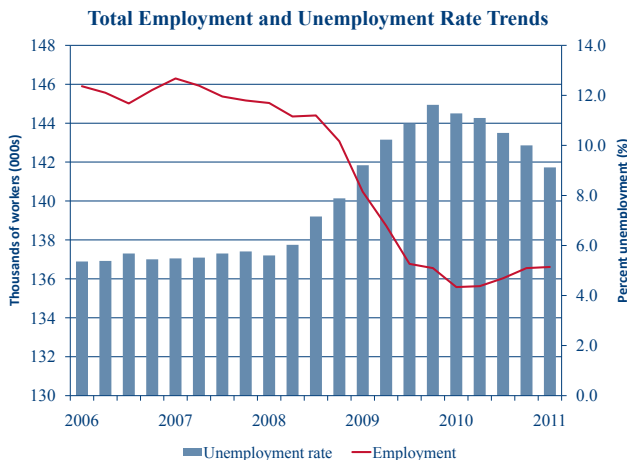
Industry	2010 Q3	2009 Q3	Percent change	Industry	2010 Q3	2009 Q3	Percent change
Goods-producing				Health care and social assistance	8,630	8,140	6.0
Food manufacturing	3,380	3,330	1.5	Ambulatory health care services	3,970	3,710	7.0
Fabricated metal products mfg.	3,960	3,350	18.2	Arts, entertainment, and recreation	1,010	1,090	-7.3
Machinery manufacturing	1,980	1,890	4.8	Accommodation and food services	7,600	7,250	4.8
Transportation equipment mfg.	3,510	3,900	-10.0	Food services and drinking places	6,990	6,650	5.1
Furniture and related products mfg.	4,920	5,120	-3.9	Government			
Private service-providing				Federal government	470	450	4.4
Professional and technical services	3,120	3,000	4.0	State government	2,090	1,980	5.6
Administrative and support services	7,270	6,510	11.7	Local government	9,100	9,010	1.0
Educational services	2,010	1,950	3.1				

SOURCE: Michigan Department of Energy, Labor, and Economic Growth, QCEW/ES-202 data.

The Only West Michigan Region That Lost Jobs

The Kalamazoo-Portage MSA was the only metropolitan area in west Michigan that did not add jobs during the first quarter; instead, employment declined by a slight 0.1 percent. Unfortunately, losses in government and the goods-producing sector negated otherwise healthy employment gains in the service-providing sector. On the plus side, the unemployment rate still managed to decline to 9.1 percent. Regional economic indicators were mixed, which suggests that conditions could turn either way in the coming months.

A long-term view of regional employment illustrates that a weak manufacturing sector is one of the problems still plaguing the region. As shown in the chart to the right, manufacturing employment remains stuck at a five-year low and has yet to show signs of recovery, while other sectors have recovered or maintained steady levels. In other parts of west Michigan, manufacturers have experienced some employment recovery, while statewide manufacturing employment has been surging, driven by automotive sector hiring.

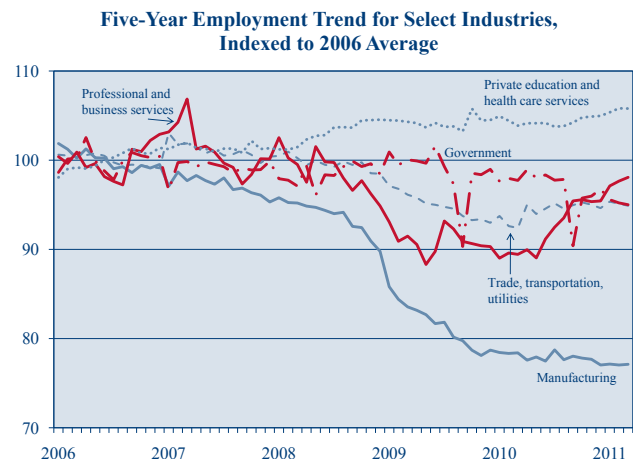


During the first quarter, goods-producing employment plunged 1.4 percent as a result of widespread losses. Construction and mining sector employers posted a 230-worker reduction—more than any other sector in the region. Unfortunately, the news from the residential construction market remained discouraging about the prospects for a turnaround: contracts for new dwelling units fell 29.5 percent.

Manufacturing employment fell by a much more modest 0.6 percent, driven entirely by losses from nondurable-goods producers. The region's durable-goods producers posted a slight 0.2 percent gain, which had an insignificant effect. Durable-goods employment has been far more robust statewide; however, the Kalamazoo-Portage MSA is home to relatively few of the automotive-related firms that have been driving growth. Unfortunately, local business news sources were mostly quiet during the quarter: there were no reports of any large-scale industrial expansions that could be expected to boost the sector later in the year.

The region's one bright spot was the service-providing sector, which grew by 0.5 percent during the first quarter. Performance was mixed across individual service industries, with several small declines being offset by large gains in a few sectors. The strongest growth occurred in professional and business services, which added 330 jobs, and educational and health services, which grew by 160 jobs. Additionally, it was reported that the area will gain 150 jobs over the next year as State Farm consolidates insurance claim handling. The company's Portage office complex is becoming one of only two main service centers in Michigan and will be adding workers as other sites close. On the downside, two sectors tied to consumer activity—financial activities and leisure and hospitality—both reported declines during the period, although retail employment rose slightly.

Government employment fell 0.9 percent last quarter, a loss of 210 jobs. On the plus side, the region's largest public employer, Western Michigan University, received some good news in March when anonymous donors committed \$100 million to the development of a new medical school.



Economic indicators for the region are limited and paint a mixed picture of emerging conditions. The good news is that labor market conditions should continue to improve, based on the declining number of claims for unemployment insurance. However, contracts for new dwelling units, a leading measure of residential construction activity, declined during the first quarter. Overall, a slow housing market is a bad sign for both consumer confidence and construction employment, although recent news articles in the region suggest that home builders are quietly growing more optimistic, based on slowly increasing demand and prices relative to 2009.

Kalamazoo-Portage MSA
(seasonally adjusted)

Measure	2011 Q1	2010 Q4	% change, Q4 to Q1	2010 Q1	% change, Q1 to Q1
Employment (by place of work)					
Total nonfarm employment	136,500	136,590	-0.1	135,510	0.7
Goods-producing	22,630	22,960	-1.4	22,700	-0.3
Construction and mining	4,680	4,910	-4.7	4,340	7.8
Manufacturing	17,950	18,050	-0.6	18,360	-2.2
Durable goods	9,780	9,760	0.2	9,720	0.6
Nondurable goods	8,170	8,290	-1.4	8,640	-5.4
Private service-providing	91,510	91,060	0.5	89,860	1.8
Trade, transportation, and utilities	23,380	23,360	0.1	22,850	2.3
Transportation and utilities	3,570	3,560	0.3	3,400	5.0
Wholesale trade	5,200	5,220	-0.4	5,000	4.0
Retail trade	14,610	14,580	0.2	14,450	1.1
Information	1,420	1,390	2.2	1,320	7.6
Financial activities	7,540	7,610	-0.9	7,640	-1.3
Professional and business services	15,100	14,770	2.2	13,820	9.3
Educational and health services	22,670	22,510	0.7	22,410	1.2
Leisure and hospitality	14,720	14,770	-0.3	15,110	-2.6
Other services	6,680	6,650	0.5	6,710	-0.4
Government	22,360	22,570	-0.9	22,950	-2.6
Unemployment					
Number unemployed	15,330	16,820	-8.9	18,960	-19.1
Unemployment rate (%)	9.1	10.0		11.3	
Local indexes					
UI initial claims	264	305	-13.4	378	-30.2
New dwelling units ^a	261	370	-29.5	435	-40.0

NOTE: Categories may not sum to total because of rounding.

^a Seasonally adjusted annual rates; does not include Van Buren County dwelling permit data.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from F.W. Dodge Division, McGraw-Hill Information Systems Company; and employment data from the Michigan Department of Energy, Labor, and Economic Growth.

Kalamazoo-Portage MSA
Industry Employment Change by Place of Work, Third Quarter to Third Quarter
(not seasonally adjusted)

Industry	2010 Q3	2009 Q3	Percent change	Industry	2010 Q3	2009 Q3	Percent change
Goods-producing				Health care and social assistance	18,900	18,830	0.4
Food manufacturing	1,820	1,740	4.6	Ambulatory health care services	6,470	6,360	1.7
Paper manufacturing	1,880	1,990	-5.5	Hospitals	6,540	6,510	0.5
Fabricated metal products mfg.	1,780	1,660	7.2	Arts, entertainment, and recreation	1,790	1,900	-5.8
Machinery manufacturing	1,870	1,760	6.3	Accommodation and food services	13,380	13,640	-1.9
Transportation equipment mfg.	1,900	2,200	-13.6	Food services and drinking places	11,700	11,900	-1.7
Private service-providing				Government			
Professional and technical services	5,230	5,550	-5.8	Federal Government	1,170	1,140	2.6
Administrative and support services	7,280	6,750	7.9	State Government	4,260	4,170	2.2
Educational services	2,160	2,100	2.9	Local Government	12,230	12,360	-1.1

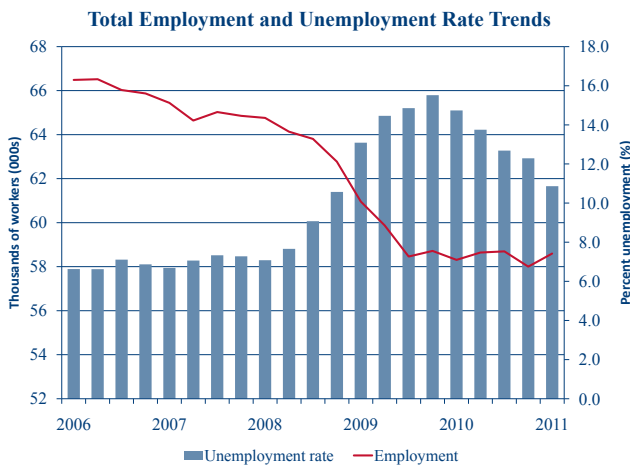
SOURCE: Michigan Department of Energy, Labor, and Economic Growth, QCEW/ES-202 data.

MUSKEGON-NORTON SHORES MSA

Healthy Growth in Both Manufacturing and Services

Muskegon County employment increased by 0.5 percent last quarter, mostly on the strength of the service-providing sector. Changes in the region's other major sectors were minor: goods-producing employment rose slightly while government employment fell slightly. Conditions for job seekers also improved and helped push the unemployment rate down from 12.3 percent to 10.9 percent during the three-month period. Also on the upside, economic indicators were positive for the region.

The five-year performance of the sectors shown in the chart to the right—manufacturing; business and professional services; educational and health services; government; and trade, transportation, and utilities—illustrates the employment doldrums that have plagued the region in recent years. Most sectors have had either flat or declining employment for an extended period; any uptick has occurred only very recently.

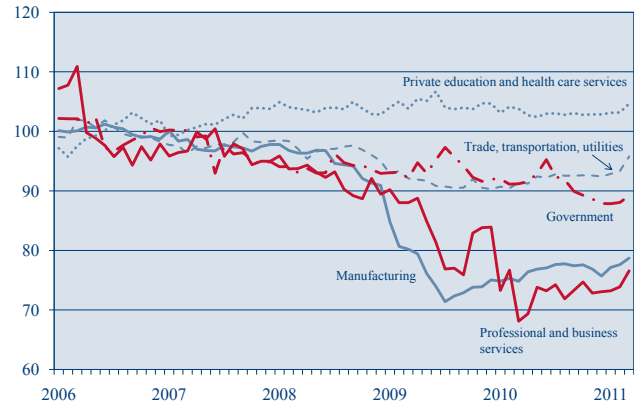


Goods-producing employment inched up 0.2 percent during the quarter. Although manufacturers swelled their payrolls by 1.5 percent, a massive 8.8 percent plunge in construction and mining employment offset the manufacturing gains and held overall goods-producing growth down to 20 jobs for the period. However, it is hoped there will be some turnaround in construction hiring over the next few months, based on the uptick in contracts for new dwelling units that occurred during the quarter. In the manufacturing sector, which has already been benefiting from the recovery of the automotive sector, Hilite International was in the process of hiring another 60 workers to produce engine parts at the company's plant in Whitehall. Given the state and national trends, it is expected that manufacturing should stay strong locally in the near term.

The service-providing sector was the region's big winner during the first quarter as employment swelled by 0.8 percent, a 310-worker gain. Unlike most other areas of west Michigan, however, the growth in services was driven not by professional and business services but by the trade, transportation, and utilities sector, which added 210 workers. Overall, service employment growth was widespread; the only downturn occurred in leisure and hospitality, which shed 100 jobs.

Government employment slipped by 0.2 percent, a small 20-job loss. With the recent announcement that the Muskegon Correctional Facility's contract with Pennsylvania will end early, large public-sector employment losses are anticipated in the second quarter of 2011. News reports indicate that approximately 200 workers are expected to be laid off when the contract ends in May, although some may be able to take positions at other corrections facilities in the area.

Five-Year Employment Trend for Select Industries Indexed to 2006 Average



Regional economic indicators moved in positive directions during the quarter, providing cause for optimism. Initial claims for unemployment insurance fell by 12.1 percent, which further illustrates the improving labor market in the region. The number of contracts for new dwelling units also posted a nice 23.4 percent bump during the period, although the overall level of residential construction activity in the region remains at a relatively low level compared to several years ago.

Muskegon–Norton Shores MSA
(seasonally adjusted)

Measure	2011 Q1	2010 Q4	% change, Q4 to Q1	2010 Q1	% change, Q1 to Q1
Employment (by place of work)					
Total nonfarm employment	58,400	58,090	0.5	58,120	0.5
Goods-producing	11,540	11,520	0.2	11,240	2.7
Construction and mining	1,350	1,480	-8.8	1,430	-5.6
Manufacturing	10,190	10,040	1.5	9,810	3.9
Private service-providing	38,550	38,240	0.8	38,280	0.7
Trade, transportation, and utilities	13,420	13,210	1.6	12,970	3.5
Retail trade	11,010	10,870	1.3	10,630	3.6
Information	800	800	0.0	730	9.6
Financial activities	1,830	1,810	1.1	1,830	0.0
Professional and business services	2,710	2,670	1.5	2,640	2.7
Educational and health services	11,140	11,050	0.8	11,140	0.0
Leisure and hospitality	6,140	6,240	-1.6	6,400	-4.1
Other services	2,510	2,460	2.0	2,570	-2.3
Government	8,310	8,330	-0.2	8,600	-3.4
Unemployment					
Number unemployed	9,050	10,190	-11.2	12,520	-27.7
Unemployment rate (%)	10.9	12.3		14.7	
Local indexes					
UI initial claims	275	313	-12.1	420	-34.5
New dwelling units ^a	79	64	23.4	74	6.8

NOTE: Categories may not sum to total because of rounding.

^a Seasonally adjusted annual rates.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from F.W. Dodge Division, McGraw-Hill Information Systems Company; and employment data from the Michigan Department of Energy, Labor, and Economic Growth.

Muskegon–Norton Shores MSA
Industry Employment Change by Place of Work, Third Quarter to Third Quarter
(not seasonally adjusted)

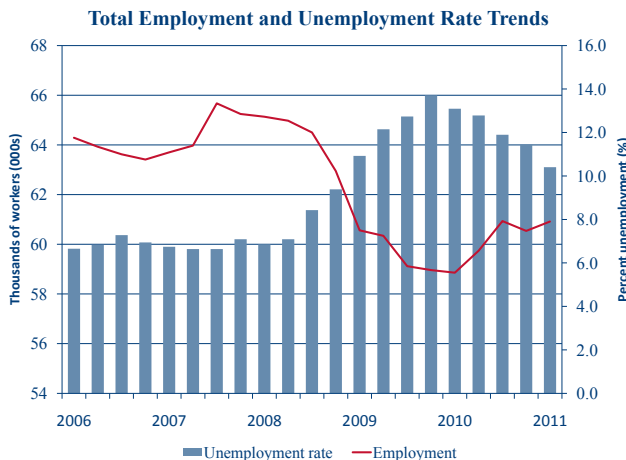
Industry	2010 Q3	2009 Q3	Percent change	Industry	2010 Q3	2009 Q3	Percent change
Goods-producing				Health care and social assistance	9,680	9,810	-1.3
Primary metal manufacturing	3,350	2,770	20.9	Ambulatory health care services	3,180	3,220	-1.2
Fabricated metal products mfg.	2,230	2,010	10.9	Hospitals	3,560	3,640	-2.2
Machinery manufacturing	1,180	1,400	-15.7	Arts, entertainment, and recreation	1,660	1,610	3.1
Transportation equipment mfg.	780	670	16.4	Accommodation and food services	5,540	5,560	-0.4
Private service-producing				Food services and drinking places	5,030	5,080	-1.0
Professional and technical services	860	860	0.0	Government			
Administrative and support services	1,540	1,570	-1.9	Federal government	400	350	14.3
Educational services	900	840	7.1	State government	1,120	1,230	-8.9
				Local government	6,140	6,390	-3.9

SOURCE: Michigan Department of Energy, Labor, and Economic Growth, QCEW/ES-202 data.

Robust Employment Growth Takes Off at the Lakeshore

Berrien County employment rose 0.8 percent during the first quarter of the year as a result of widespread employment gains. The region's unemployment rate also improved substantially and fell one full point to 10.4 percent. Economic indicators were mixed, however, which suggests that conditions may not remain as robust over the coming months.

As shown in the chart of five-year employment for select industries, the real driver of expansion in the region has been the professional and business services sector. While other sectors have remained mostly flat in recent years, professional and business services employment has expanded to new highs over the past 15 months. The growth of the sector reflects both the expansion of the service-sector economy and, possibly, an increase in temporary agency jobs, which are classified as administrative and support services within the professional and business services sector.

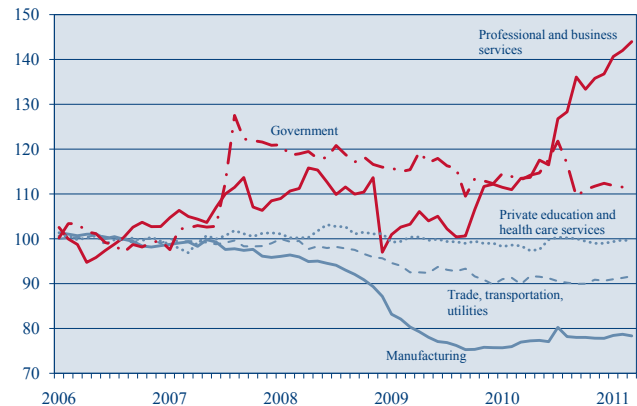


The goods-producing sector posted a nice 0.7 percent bump in employment during the quarter—a result of increased hiring by area manufacturers, which added 90 jobs. Construction and mining employment was unchanged during the period, although the current workforce level represents a 7.8 percent improvement compared to one year ago.

Service-providing employers added 380 jobs, and this figure represents the bulk of the region's employment gains during the quarter. Within the service sector, professional and business services grew the most, adding 360 new jobs, while the trade, transportation, and utilities sector posted a 100-job bump. Additionally, business services employment should get an additional boost over the next few months as Whirlpool moves 50 call-center jobs from Yakima, Washington, to its Benton Harbor facility. Other service industry gains were small, however, and leisure and hospitality employment moved in a strongly negative direction with a 170-job, 2.8 percent workforce reduction. The weakness in leisure and hospitality employment suggests that some of the region's tourism-oriented employers may have had a more difficult time than usual weathering the slow winter months.

Government payrolls were essentially flat during the quarter, as only a minor 10-job addition was reported. Overall, the local public-sector workforce shrank by 1.8 percent over the past year, and expectations are that further cuts will occur, given the budget reductions happening in Lansing and possible changes to municipal staffing levels in the City of Benton Harbor.

Five-Year Employment Trend for Select Industries, Indexed to 2006 Average



Unfortunately, economic indicators for the region have been mixed, which suggests that conditions could turn in either direction during the second quarter. The number of contracts for new dwelling units issued during the first quarter plunged 82.5 percent, indicating that a severe chill has set in for the residential housing market. However, on the plus side the labor market appears to still be improving, based on the reduction in initial claims for unemployment insurance benefits.

Niles–Benton Harbor MSA
(seasonally adjusted)

Measure	2011 Q1	2010 Q4	% change, Q4 to Q1	2010 Q1	% change, Q1 to Q1
Employment (by place of work)					
Total nonfarm employment	61,000	60,520	0.8	58,920	3.5
Goods-producing	13,240	13,150	0.7	12,790	3.5
Construction and mining	1,660	1,660	0.0	1,540	7.8
Manufacturing	11,580	11,490	0.8	11,250	2.9
Private service-providing	39,040	38,660	1.0	37,250	4.8
Trade, transportation, and utilities	10,680	10,580	0.9	10,610	0.7
Retail trade	6,680	6,670	0.1	6,570	1.7
Information	590	590	0.0	560	5.4
Financial activities	2,230	2,220	0.5	2,130	4.7
Professional and business services	7,400	7,040	5.1	5,830	26.9
Educational and health services	9,560	9,520	0.4	9,450	1.2
Leisure and hospitality	5,840	6,010	-2.8	6,030	-3.2
Other services	2,740	2,700	1.5	2,640	3.8
Government	8,720	8,710	0.1	8,880	-1.8
Unemployment					
Number unemployed	8,030	8,820	-9.0	9,960	-19.4
Unemployment rate (%)	10.4	11.4		13.1	
Local indexes					
UI initial claims	184	220	-16.4	238	-22.7
New dwelling units ^a	44	252	-82.5	255	-82.7

NOTE: Categories may not sum to total because of rounding.

^a Seasonally adjusted annual rates.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from F.W. Dodge Division, McGraw-Hill Information Systems Company; and employment data from the Michigan Department of Energy, Labor, and Economic Growth.

Niles–Benton Harbor MSA
Industry Employment Change by Place of Work, Second Quarter to Second Quarter
(not seasonally adjusted)

Industry	2010 Q3	2009 Q3	Percent change	Industry	2010 Q3	2009 Q3	Percent change
Goods-producing				Health care and social assistance	7,680	7,570	1.5
Primary metal manufacturing	920	860	7.0	Ambulatory health care services	2,490	2,380	4.6
Fabricated metal products mfg.	1,500	1,290	16.3	Arts, entertainment, and recreation	920	880	4.5
Machinery manufacturing	1,460	1,600	-8.8	Accommodation and food services	5,780	5,700	1.4
Transportation equipment mfg.	990	740	33.8	Food services and drinking places	5,120	5,050	1.4
Private service-providing				Government			
Professional and technical services	1,410	1,360	3.7	Federal government	370	350	5.7
Administrative and support services	4,720	3,080	53.2	State government	400	440	-9.1
Educational services	1,200	1,160	3.4	Local government	7,490	7,430	0.8

SOURCE: Michigan Department of Energy, Labor, and Economic Growth, QCEW/ES-202 data.

PURCHASING MANAGERS INDEX

In the Grand Rapids area, it was reported that “growth stabilizes” for businesses, while the Kalamazoo area is “still growing at a moderate rate.” That is the latest report from Brian Long, author of *Current Business Trends*, a publication that reports the news and views of local purchasing managers.

The Grand Rapids-area composite purchasing managers index increased during the first quarter of 2011 and indicates that a pattern of steady growth is occurring in the region. In February, the composite index hit 71.8, which is the highest level reported in the past 14 years. The individual components of the index have all been strong during recent months, suggesting that sales, production, employment, and capital expenditures are all in full swing. However, it should be noted that 73 percent of purchasing managers in the region

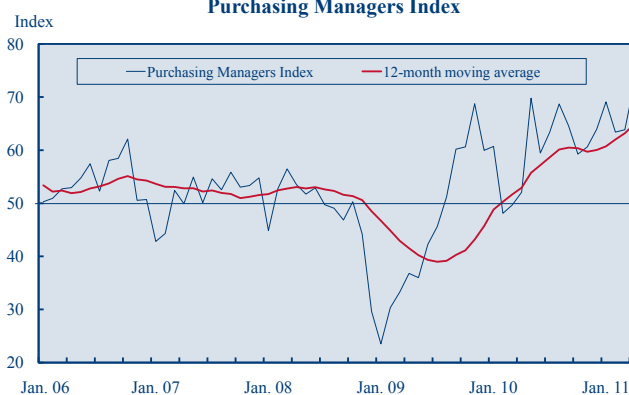
also reported rising commodity prices in March, which could squeeze the profits of firms that are unable to pass the cost on to their customers.

Kalamazoo-area purchasing managers also reported good news during the first three months of the year, as shown by the steadily rising composite purchasing managers index. In March, the local index reached a 14-year high, 72.5, as a result of strong business activity across the board. According to the April issue of *Current Business Trends*, the majority of industries reported growth, though automotive suppliers appear to be benefiting most from the ongoing recovery.

**Grand Rapids Area
Purchasing Managers Index**



**Kalamazoo Area
Purchasing Managers Index**



MAJOR ECONOMIC DEVELOPMENTS

Battle Creek MSA

A new hotel and convention center is being constructed on the grounds of the Firekeepers Casino, which has reported strong business during its nearly two years of operation. The new facility is expected to employ 400 workers when it opens next summer.

Grand Rapids–Wyoming MSA

Hearthside Foods announced plans to add a total of 302 workers at three of its snack-food processing facilities in the region.

Gordon Food Services announced plans to develop a new headquarters campus in Wyoming. The move will bring 127 jobs to the area as the food-distribution company consolidates IT and backroom operations at the new facility.

Holland MSA

Multi Packaging Solutions Inc., a printing and packaging manufacturer, recently announced plans to add 180 workers at its plants in Allegan and Holland.

Kalamazoo–Portage MSA

Western Michigan University received an anonymous \$100 million donation that will help support the development of a new medical school.

State Farm Insurance announced that 150 jobs will be coming later this year to the company’s Portage facility.

Muskegon–Norton Shores MSA

Hilite International is in the process of hiring 60 new workers to produce engine parts at the company’s plant in Whitehall.

The Muskegon Correctional Facility’s contract to house prisoners for the state of Pennsylvania will end earlier than expected. Approximately 200 workers will be laid off in May instead of in August, as was originally planned.

Niles–Benton Harbor MSA

Whirlpool is consolidating its call-center operations, which will result in 50 new jobs at the company’s offices in Benton Harbor.

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